USDA Agricultural Outlook Forum 2005

Session on “Farm and Trade Policy”: “Globalization and the Role of the WTO”

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Developing Countries’ Issues and Concerns within the WTO

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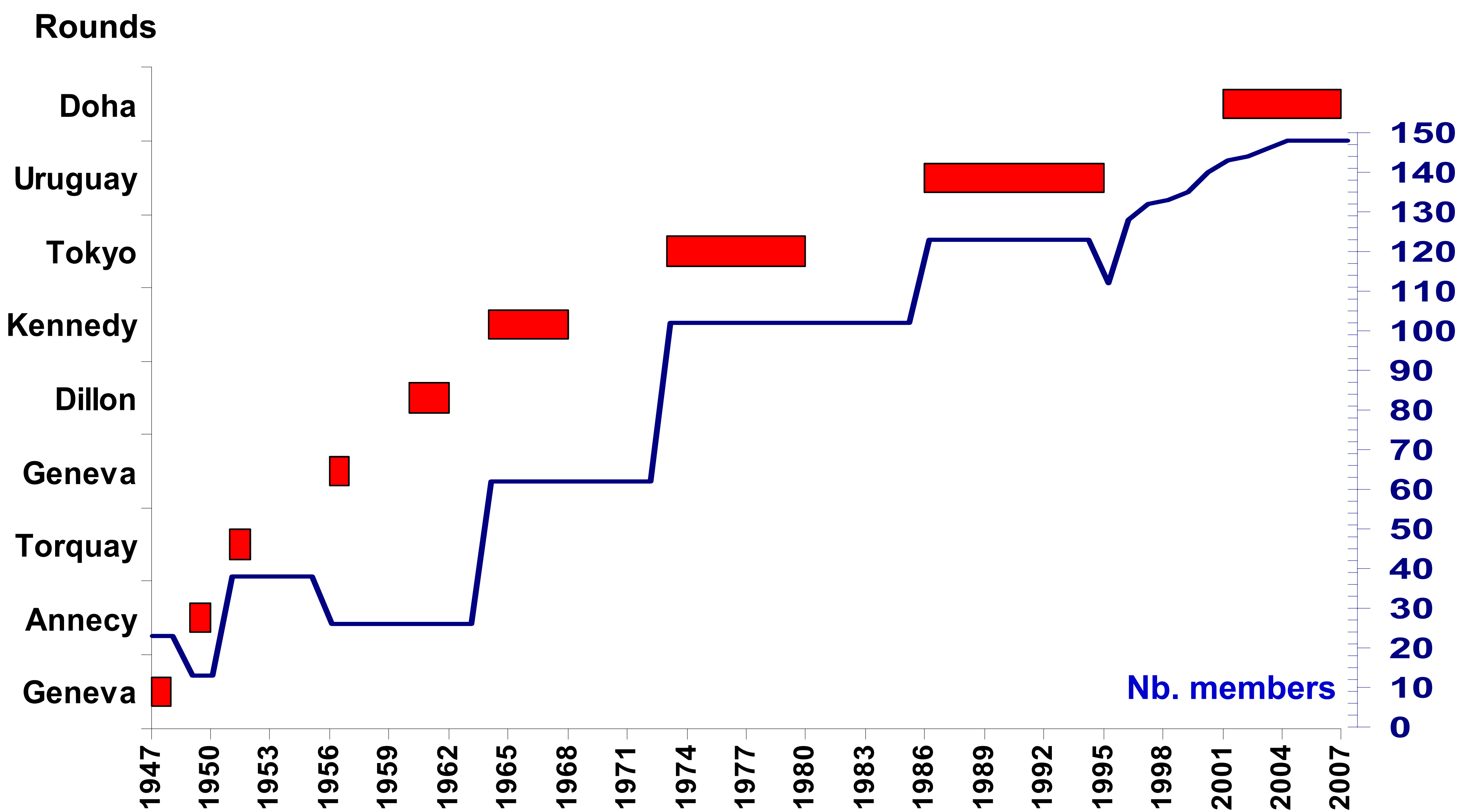
24 February 2005

Outline

- The Doha Development Agenda (DDA) and developing countries concerns.
- Market Access issues.
- Subsidies: export competition and domestic support.
- Conclusions.

GATT-WTO

Negotiating Rounds and Number of Members



Source: WTO

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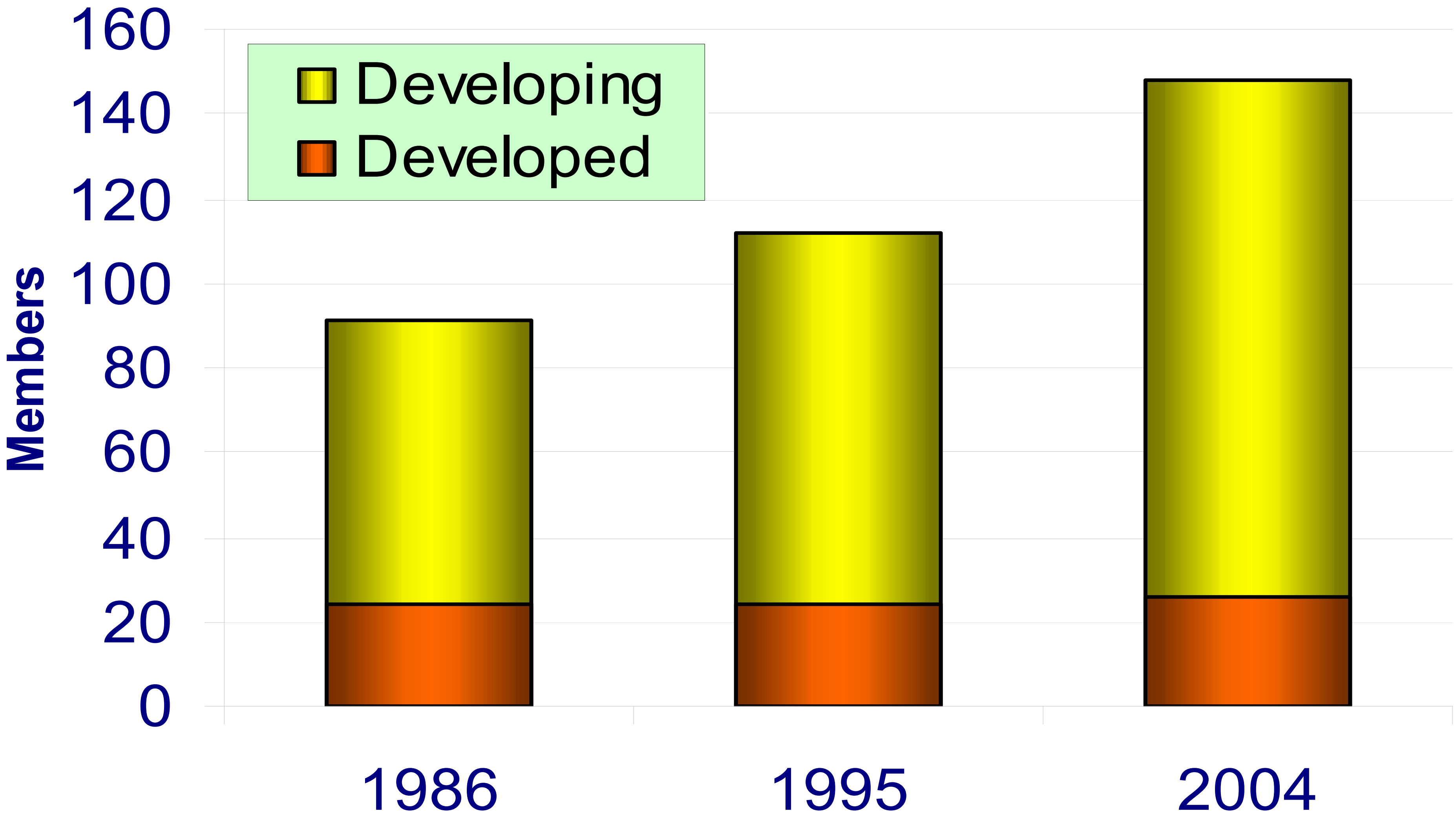
WTO membership: increased developing country



Source: WTO. Elaboration: ABARE-Australia.

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Agricultural Negotiations at the Doha Round

Risk of re-interpretation of the Doha Mandate

Doha Mandate:

Substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.

Re-interpretation of the Doha Mandate:

Substantial improvements in market access, with exceptions for *sensitive* and *special* products; reduction of, with a view to phasing out, all forms of export subsidies, if there is *full parallelism* on all forms of export competition; and substantial reductions in trade-distorting domestic support, allowing no reduction in *less* trading distorting support.

Doha Development Round: broadening exceptions and loopholes in agriculture?

From Doha (2001) to Hong Kong (2005)

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Strong ambition in the Doha Mandate (2001).

Setbacks in US Farm Act 2002 and timid EU Fischler CAP Reform in 2003 (partial decoupling).

Joint EC/US proposal:

- Defensive interests of the US (Domestic Support) and EU (Market Access) → G-20

New Variable Geometry:

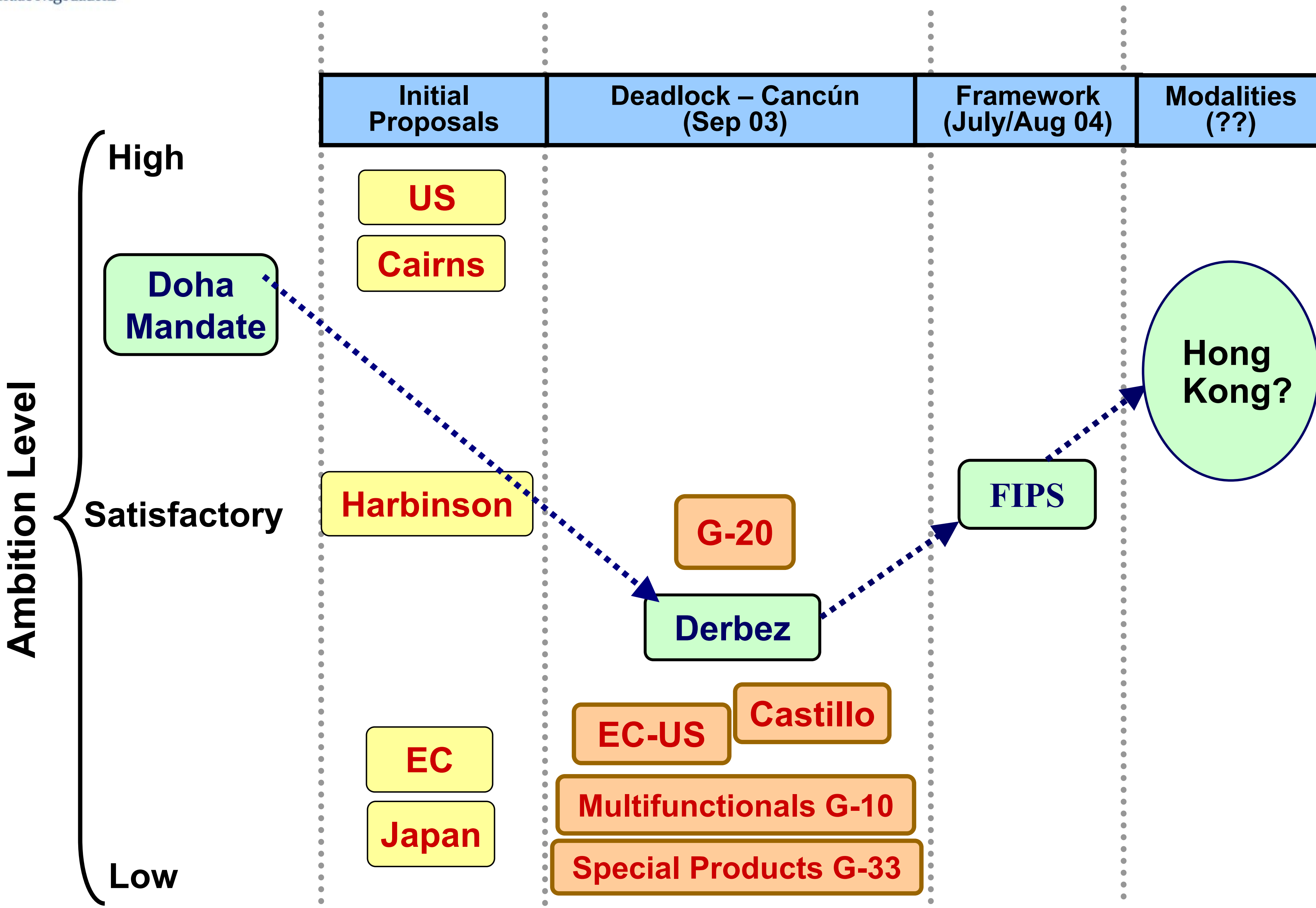
From QUAD

US, EU
Japan, Canada

to FIPS

US, EU
Brazil, India, Australia

Doha Round: A Snapshot



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Developing Countries’ Concerns

Complexity, heterogeneity and conflict of interests

MARKET ACCESS

1. No commitments
   - Around 32 countries (LDCs): already decided
2. Preference Erosion, Special Products:
   - Largest group: LDCs, G-90, G-33.
   - Ex.: sugar case/EU (developing countries divided)
3. Large consumers & rural populations
   - India, China, Indonesia,… (central role?)
4. Free-traders
   - Net exporters: Brazil, Argentina, Chile, Central America, South Africa, Thailand,… (< 15 countries)

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Developing Countries' Concerns

Complexity, heterogeneity and conflict of interests

DOMESTIC SUBSIDIES

1. **Net food importers**
   - 56 countries
2. **Unfair competition from subsidies in EU, US,...**
   - EU "greening" its subsidies for internal reasons (budget constraints, enlargement)
   - US increasing its subsidies: doubled in '02 Farm Act
     - No round if the US does not "decouple" subsidies.
     - Ex.: cotton case (US *vs.* rest of the World).

Agriculture in the Doha Round

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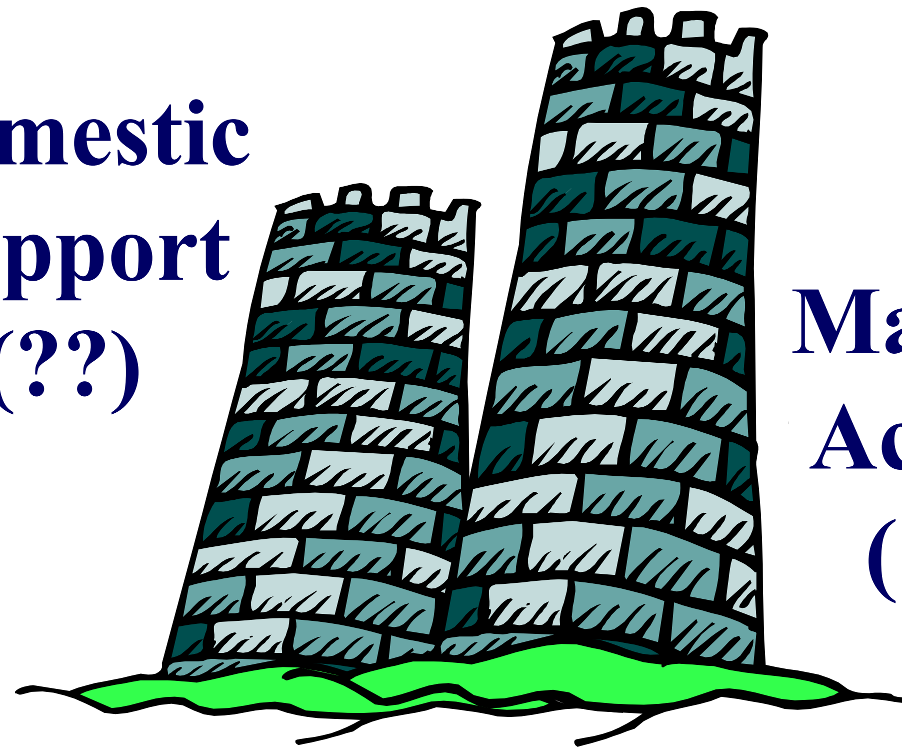
Domestic Support (??)



Market Access (??)

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Agricultural Trade Negotiations: Main Issues

Market Access:

- Tariff Peaks & Tariff Overhang ("water")
- Tariff Escalation
- Specific Duties (conversion to ad valorem)
- Tariff-Rate Quotas
- Special Safeguards (SSG, SSM)

Domestic Support:

- Amber Box payments
- Blue/New Blue Box payments
- Green Box disciplines
- De Minimis payments
- Overall cut of all distorting support

Export Competition:

- Export Subsidies
- Export Credits
- Abuse of Food Aid programs
- State Trade Enterprises & Monopoly Power

Other Issues:

- Geographical Indications
- Differential Export Taxes (DET)
- Sectoral Initiatives

MARKET ACCESS
Main Issues in the Doha Round Work Program

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- Progressivity: deeper cuts in higher tariffs.
- Proportionality: of tariff reductions between developing and developed members (S&D treatment).
- Neutrality: with respect to tariff structures.
- Flexibility: take into account the sensitive nature of some products: sensitive products, special products.
- Tariff cappings.
- Tariff Escalation.
- Conversion of specific tariffs.
- Tariff Rate Quotas: expansion, administration.
- Special Safeguards: SSG, SSM.

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Applied Agricultural Tariffs

	BRAZIL	USA	EU-15	CHINA	INDIA
Mean	10.2%	12.3%	29.5%	18.3%	36.9%
Median	10.0%	4.4%	14.7%	17.5%	30.0%
Standard Deviation	6.0%	29.6%	40.3%	13.6%	25.8%
Coefficient of Variation	0.6	2.4	1.4	0.7	0.7
Maximum Tariff	55.0%	350.0%	277.2%	71.0%	182.0%
Minimum Tariff	0.0%	0.0%	0.0%	0.0%	0.0%
N° Positions ≥ 100%	-	31	152	-	54
N° Positions ≥ 30%	4	167	633	130	641
Total of Positions	959	1829	2091	1044	690
Tariffs ≥ 100%/Total	-	1.7%	7.3%	-	7.8%
Tariffs ≥ 30%/Total	0.4%	9.1%	30.3%	12.4%	92.8%

Notes:

1. Specific tariffs were converted into *ad valorem* (AVE) equivalents, based on ICONE´s methodology, which utilizes unitary export values from COMTRADE (UM) database.
2. Statistics calculated for the US take into account both intra and extra quota tariffs. For EU-15, only extra-quota tariffs are considered.
3. Brazilian numbers consider individual exceptions to Mercosul´s Common External Tariff.
4. Coefficient of Variation is the standard deviation divided by the mean. The higher the CV, the higher is the data dispersion.

Source: ICONE, elaborated with data from USITC (2003), TARIC (2003), TEC Mercosul, MDIC (2003) and Chinese and Indian Governments (2002).

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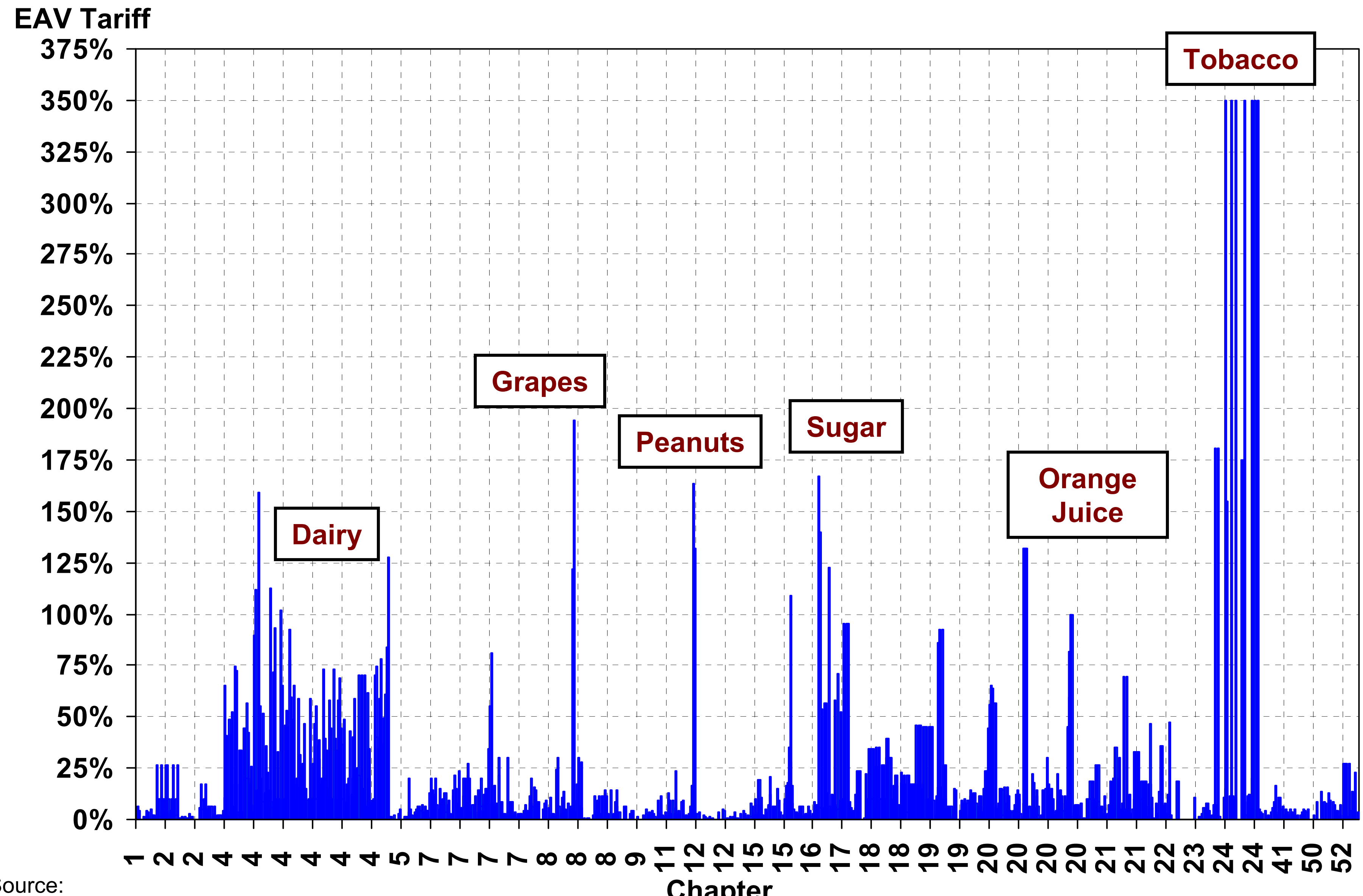
UNITED STATES

Tariff Structure: Distribution According to HS Chapters



Source:

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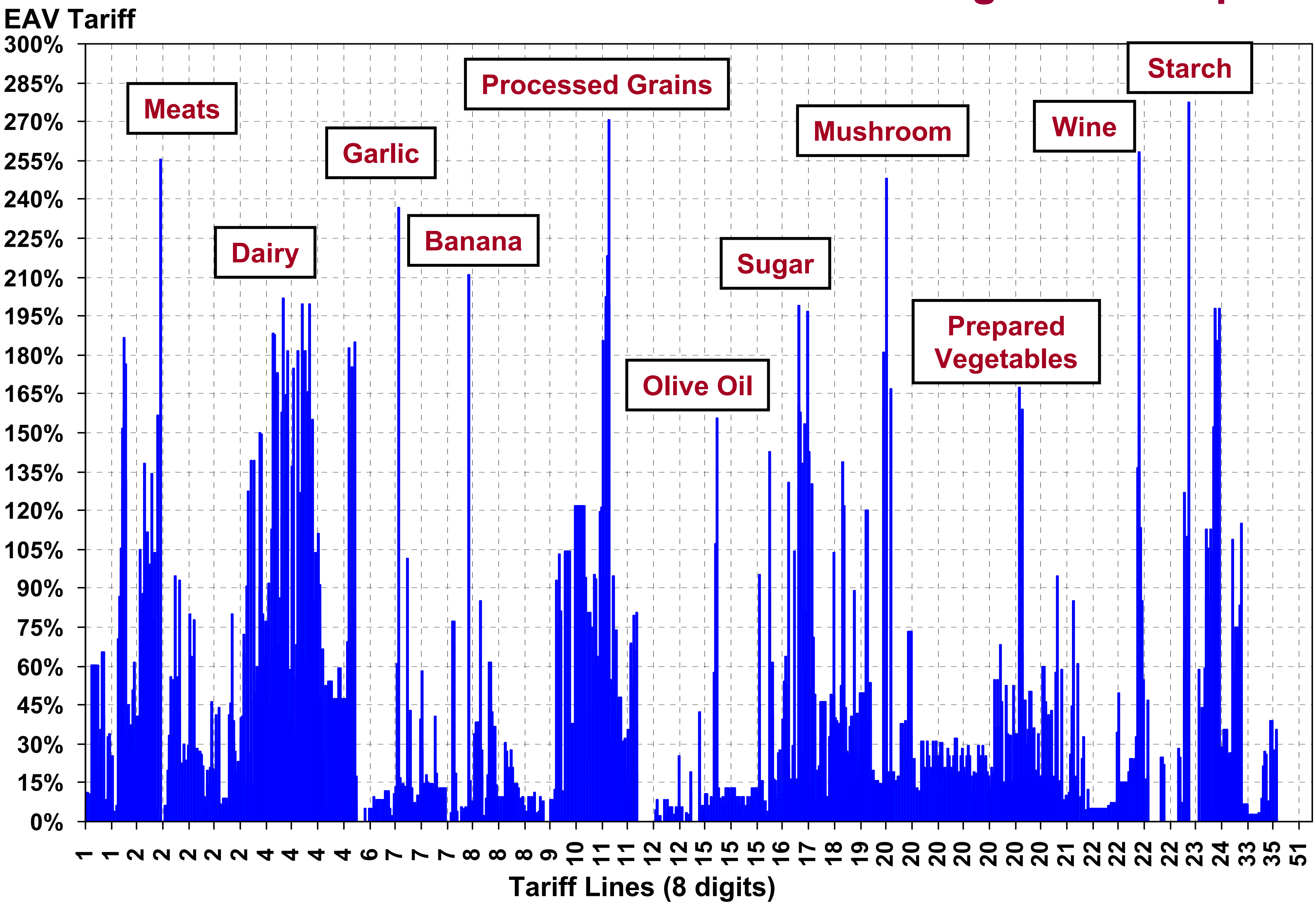
EUROPEAN UNION

Tariff Structure: Distribution According to HS Chapters



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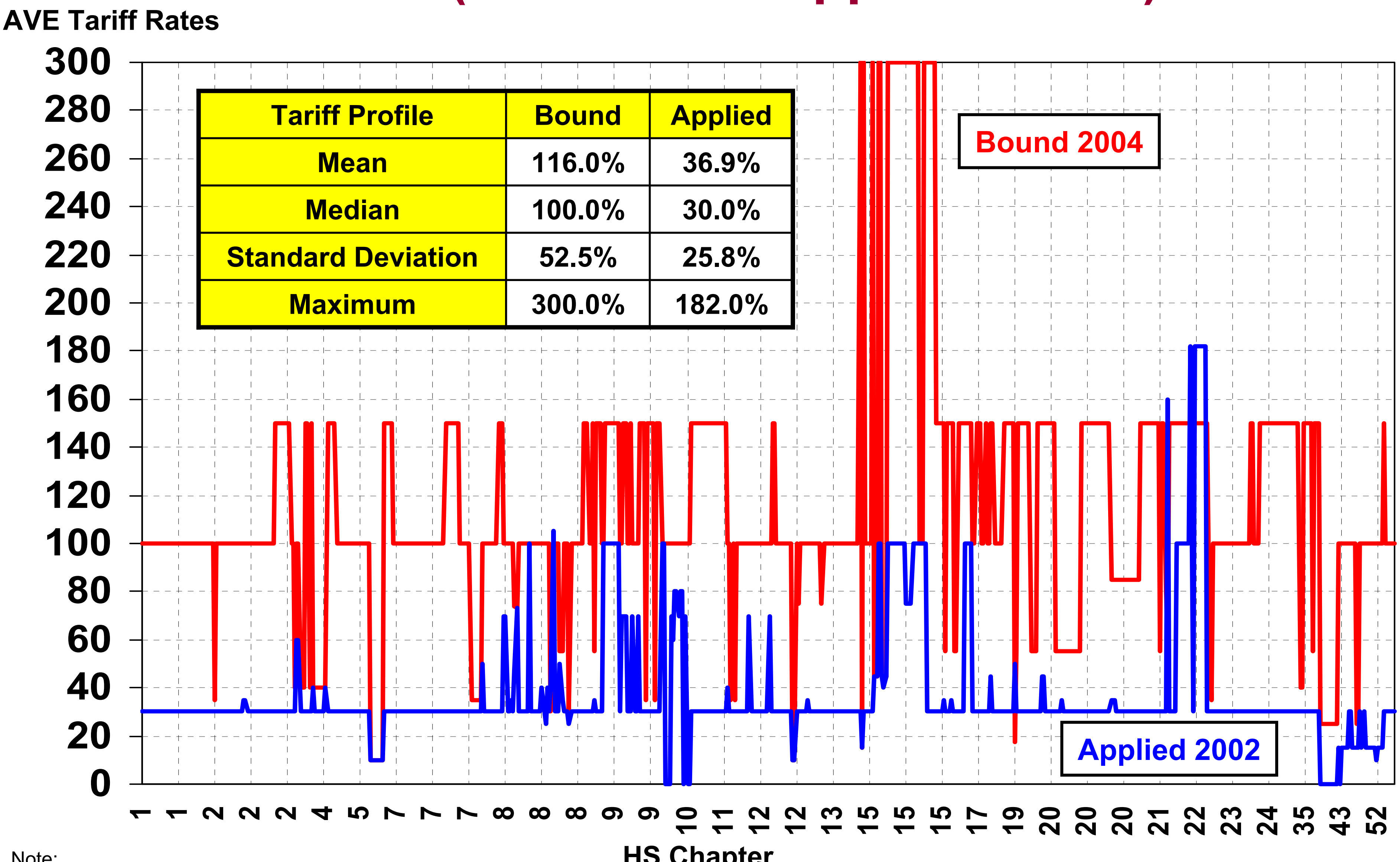
INDIA AG TARIFF PROFILE
(Bound and Applied Rates)



Tariff Profile	Bound	Applied
Mean	116.0%	36.9%
Median	100.0%	30.0%
Standard Deviation	52.5%	25.8%
Maximum	300.0%	182.0%

Note:
Specific tariffs were converted into *ad valorem* (AVE) equivalents, based on ICONE´s methodology, which utilizes unitary export values from COMTRADE (UM) database. Source: IDB/WTO and WTO Schedules. Elaboration: ICONE, Brazil.

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Agricultural Trade Negotiations: Main Issues

Market Access:

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Issues in Export Competition

EXPORT SUBSIDY

European Union

EXPORT CREDITS

United States

X

TRADE MONOPOLY

Australia & Canada

FOOD AID ABUSE

United States & others

➔ ***Parallelism***

Agricultural Trade Negotiations: Main Issues

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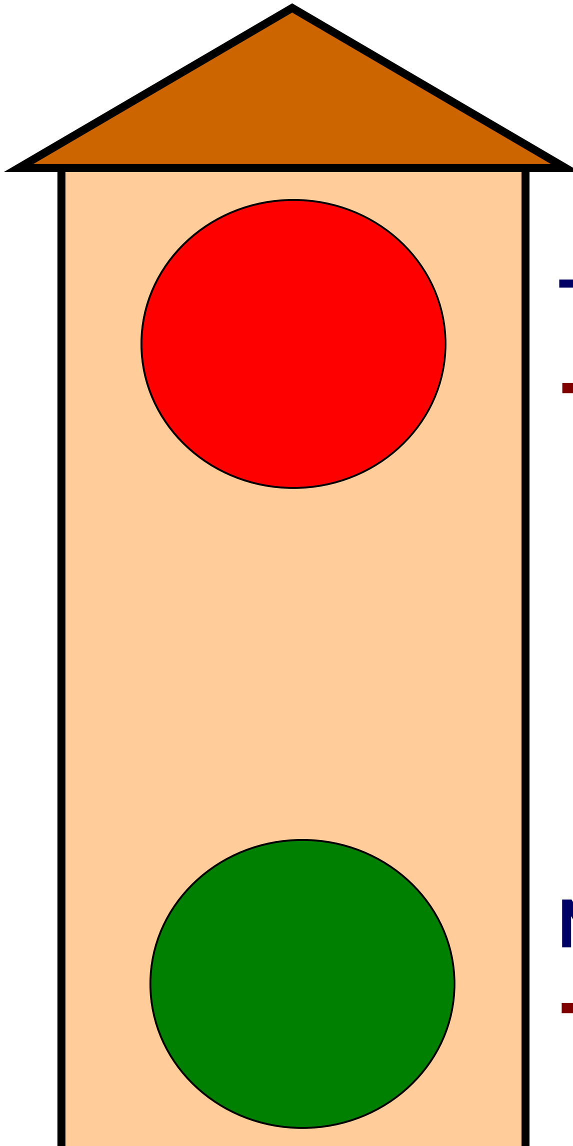
DOMESTIC SUPPORT:
Early Uruguay Round



Trade Distorting Subsidies

➔ Not Allowed

No or Minimally Trade Distorting

➔ Allowed

DOMESTIC SUPPORT: Early Uruguay Round

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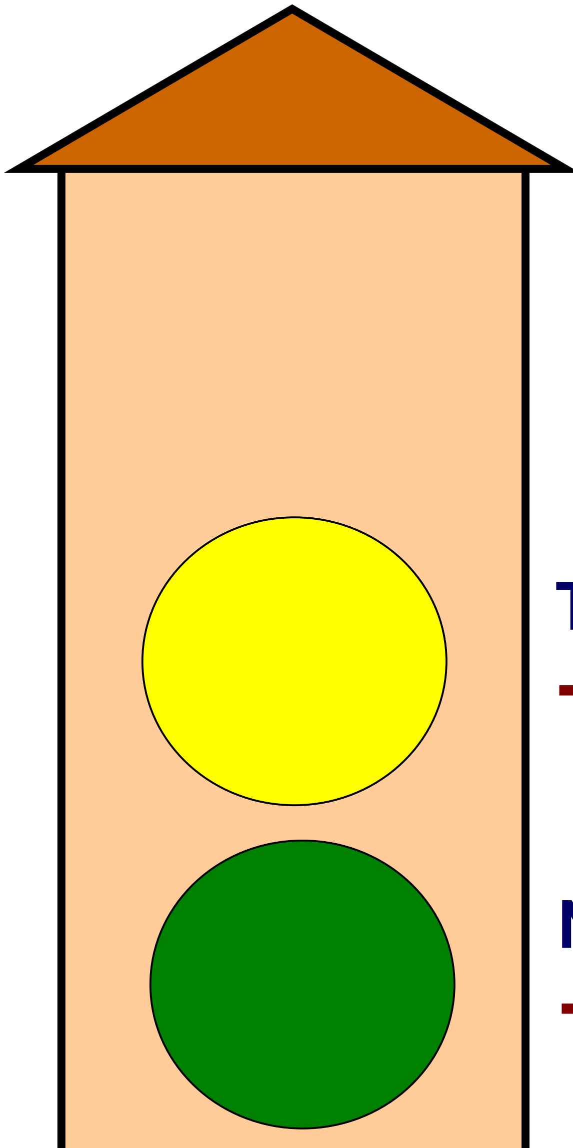

Trade Distorting Subsidies

➔ Monitored, Global Capping

No or Minimally Trade Distorting

➔ Allowed

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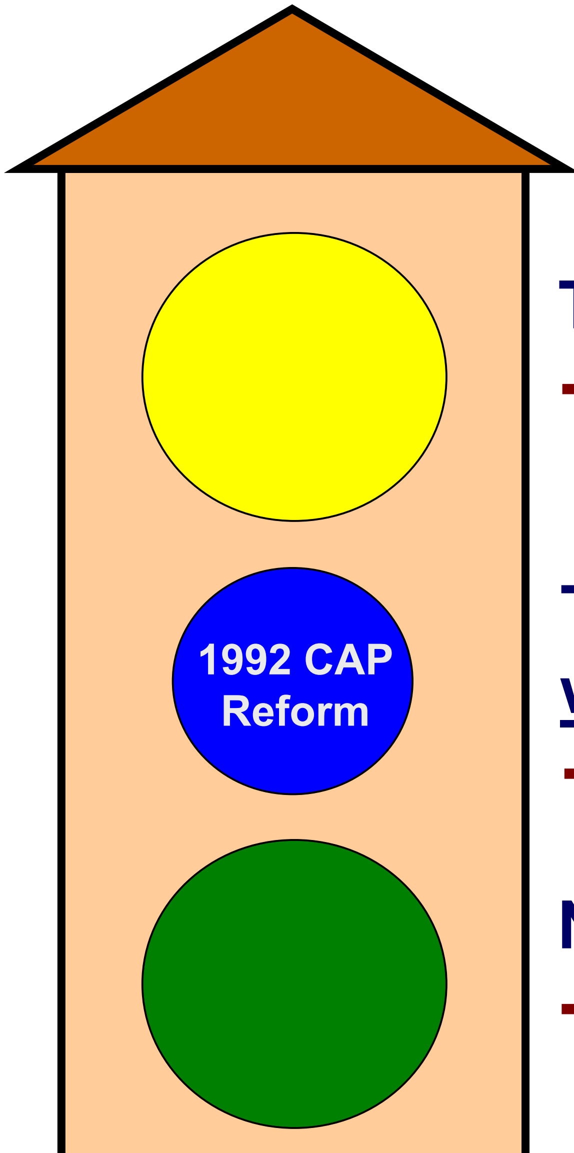
DOMESTIC SUPPORT: End of the Uruguay Round



Trade Distorting Subsidies
➔ Monitored, Global Capping

Trade Distorting Subsidies
<u>with supply control</u>
➔ Temporarily Allowed

No or Minimally Trade Distorting
➔ Allowed

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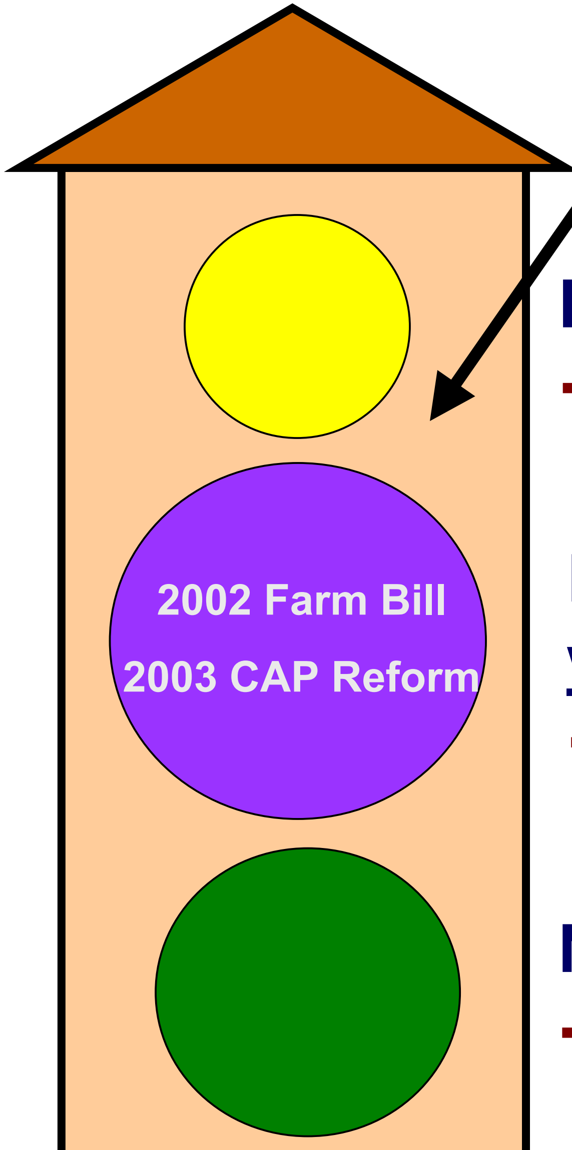
DOMESTIC SUPPORT: Prospects for the Doha Round

Product and Box-Shifting!



Most Trade Distorting Subsidies

➔ Monitored, Global Capping

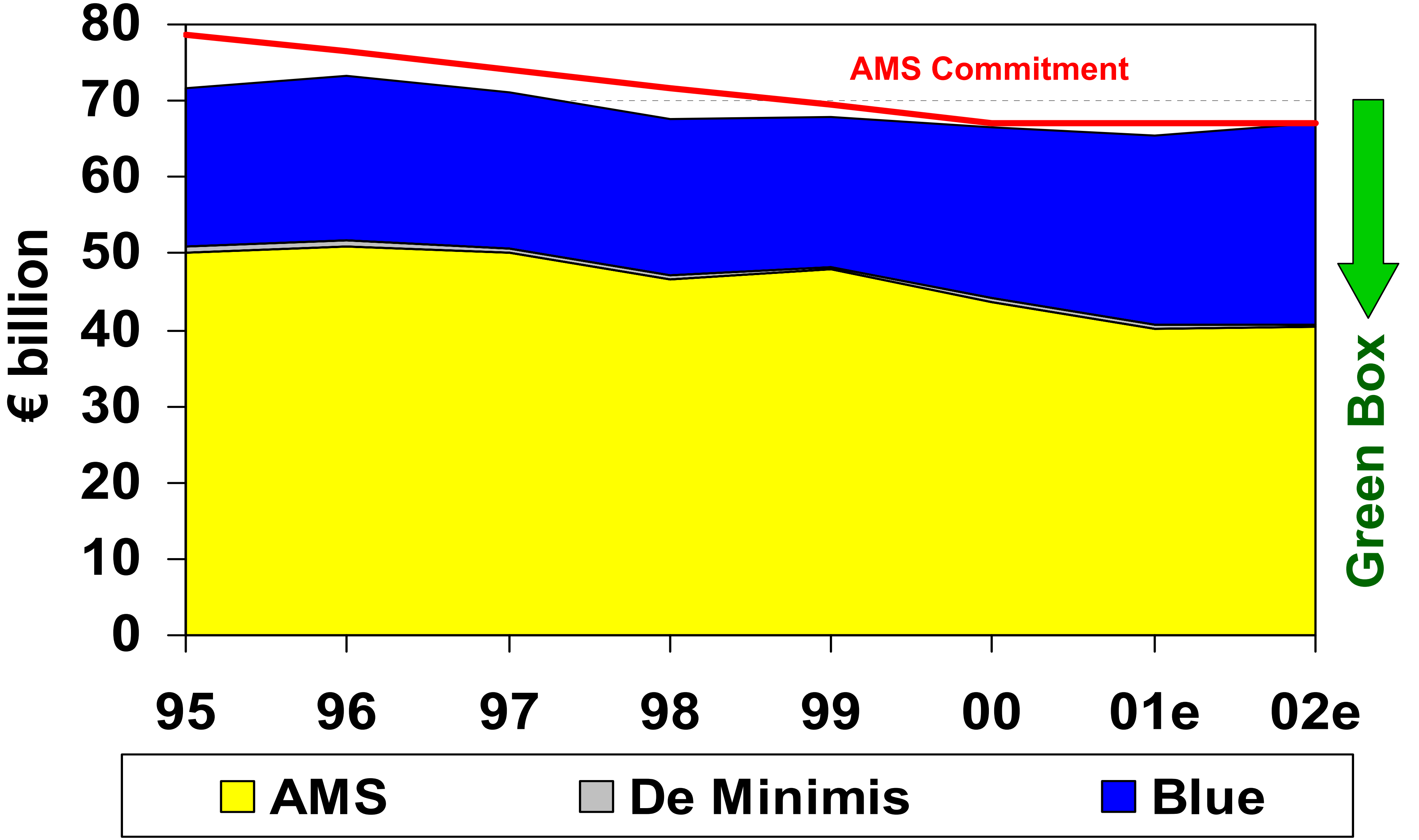
Less Trade Distorting Subsidies <u>with NO supply control</u>

➔ Allowed, Global Capping: 5% PV

No or Minimally Trade Distorting

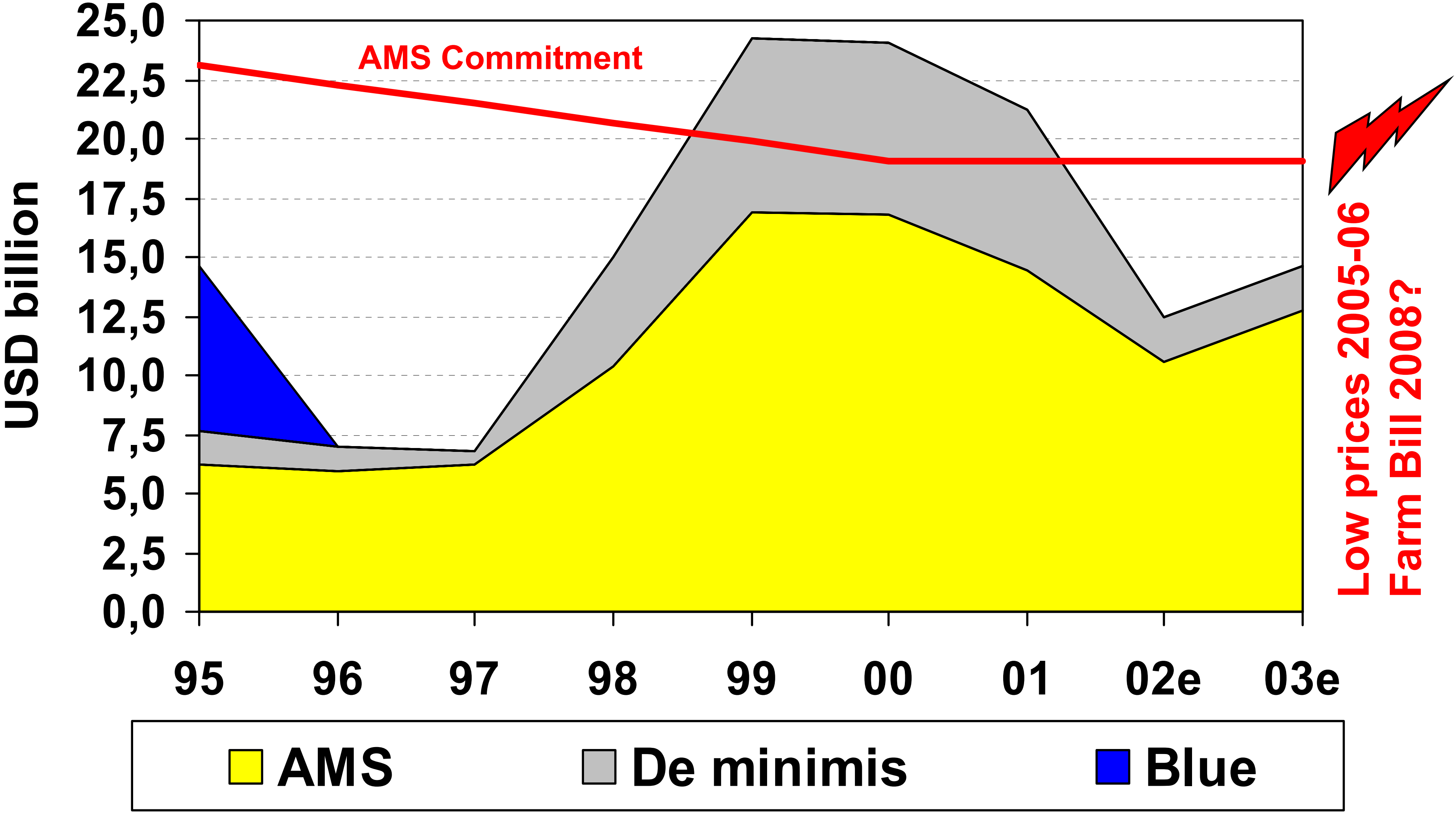
➔ Allowed, monitoring

EC15: Total Trade Distorting Domestic Support (marketing year)



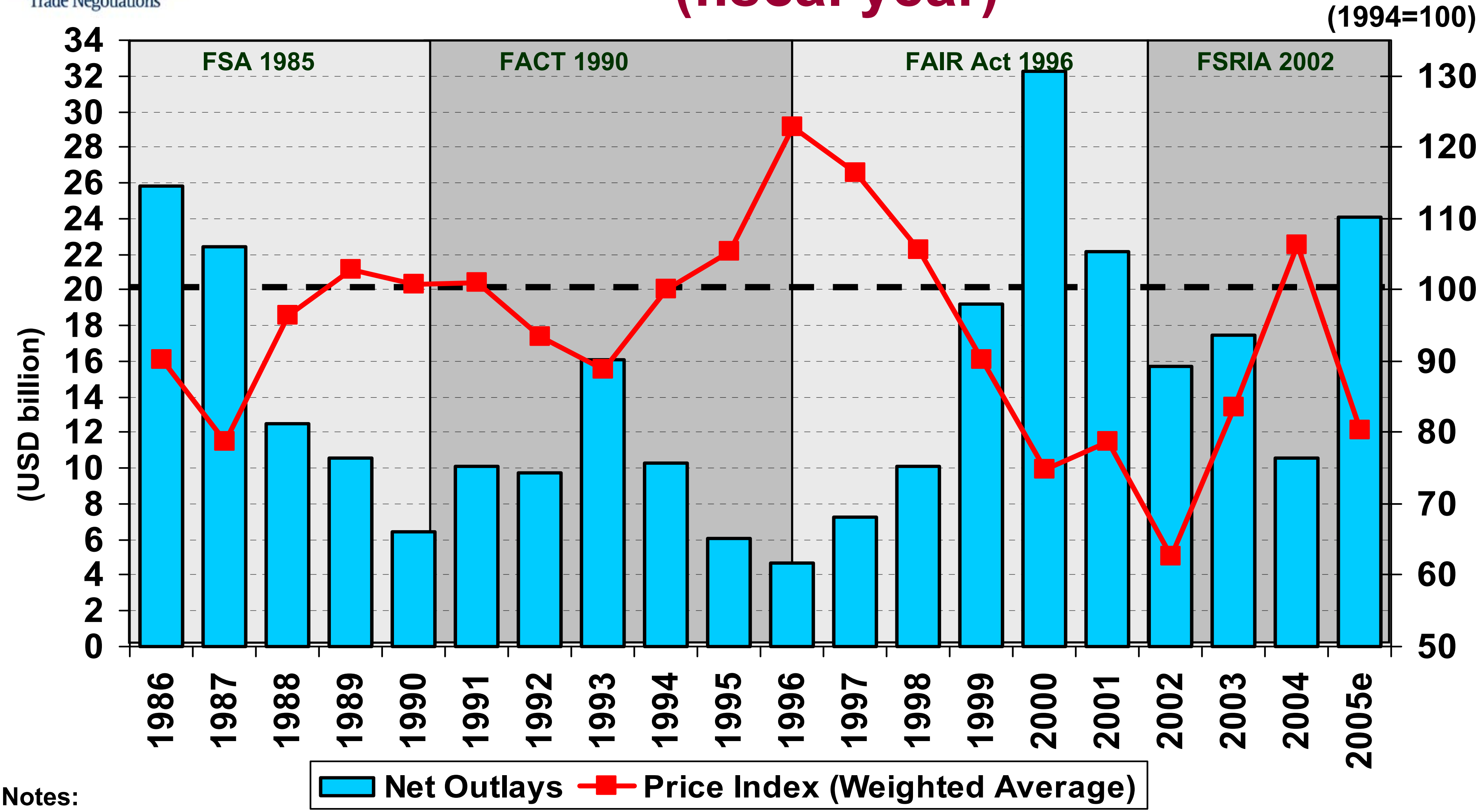
Notes: (e) Estimates by ICONE
Source: WTO. Elaboration - Icone

US: Total Trade Distorting Domestic Support (Marketing Year)



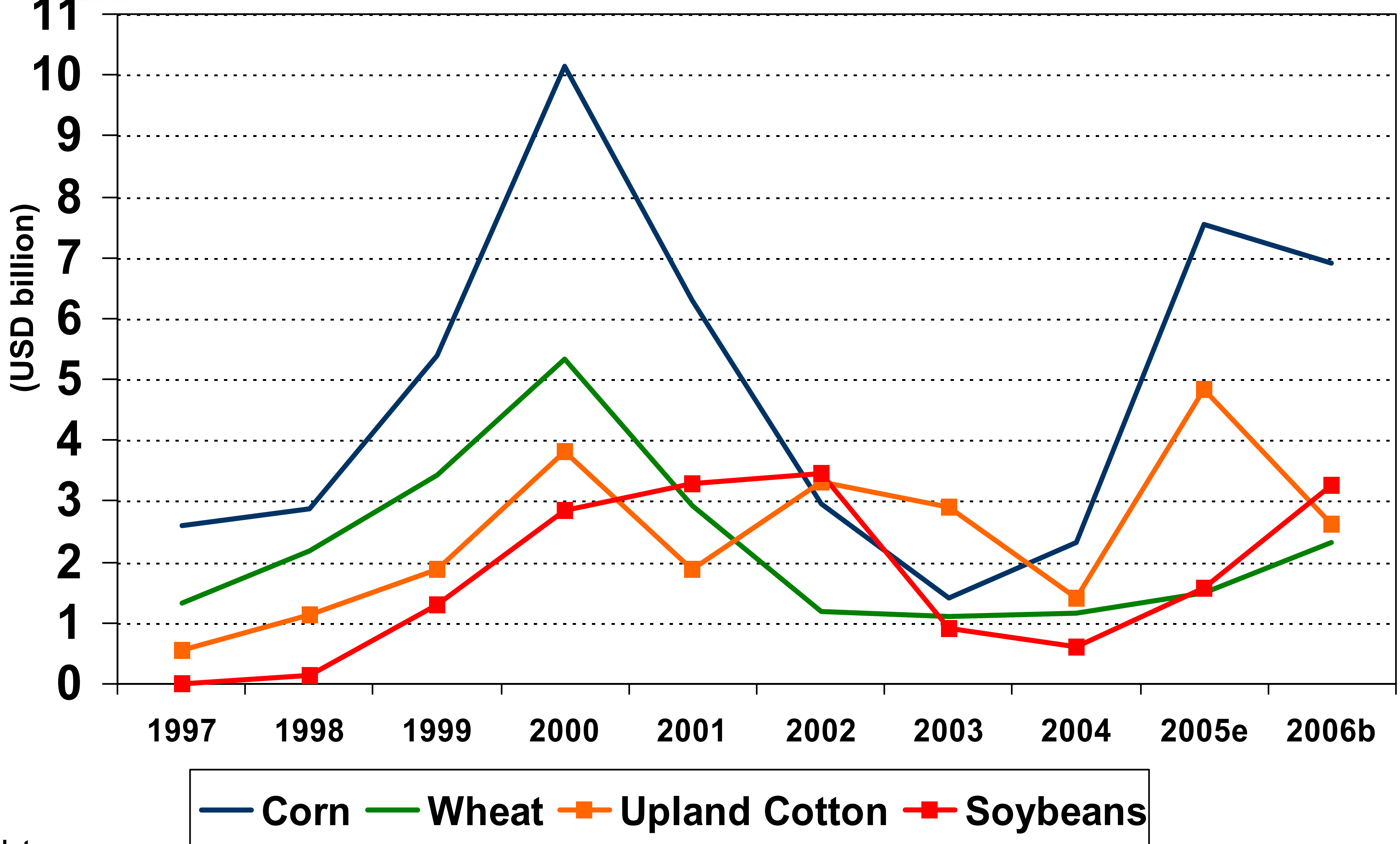
Notes: (e) Estimates
CCP (Counter Cyclical Payments) included in “de minimis”
Source: WTO, Elaboration - Icone

US: Total CCC Net Outlays
(fiscal year)



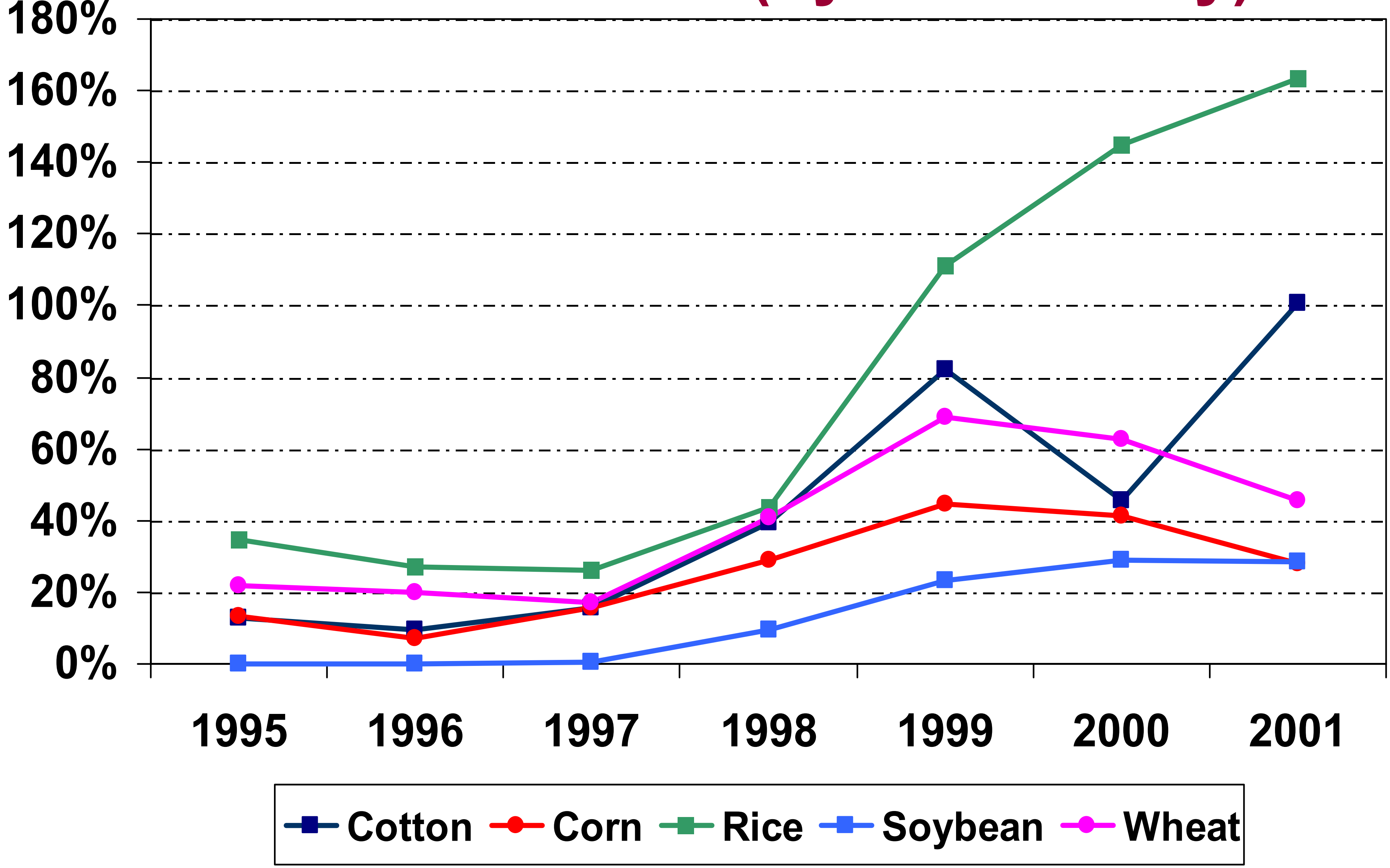
Notes:
FSA: Food Security Act (1985); FACTA: Food, Agriculture, Conservation and Trade Act (1990);
FAIR Act: Federal Agricultural Improvement & Reform Act (1996); FSRIA: Farm Security & Rural Investments Act (2002)
*US nominal farm gate prices of barley, corn, cotton, oats, rice, sorghum, soybeans and wheat. Prices are weighted according to the share of each crop in the total value of production (1994-2004 average).
(e) Estimate (b) Budget provisions.
Source: USDA–CCC. Elaboration: ICONE

US: CCC Net Outlays by Selected Commodities (fiscal year, Oct-Sept)



Notes:
* Barley, Oats, Sorghum, and products.
(e) estimate (b) budget provisions. Source: USDA–CCC. Elaboration: ICONE

Share of Ag Subsidies in US Production (by commodity)



Source: ICONE.

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Developing Countries Issues and Concerns

CONCLUSIONS

Market Access:

- ✓ Free vs. Preferential trade interests
- ✓ Defensive positions in China, India…but new offensive interests in industrial goods (China), services (India).

Subsidies

- ✓ Export competition: problem for DCs (parallelism)
- ✓ Domestic Support
  - **Expectations of reduction/decoupling in the next US Farm Bill**
  - **EU and G20 could follow US movements (trade-offs)**

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